



Health Services

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July 31, 2008

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D.
Interim Director

SUBJECT: **ADVANCE NOTIFICATION OF SOLE SOURCE
AGREEMENT NEGOTIATIONS WITH CARDINAL
HEALTH, INC.**

This is to advise you that the Department of Health Services (DHS) intends to enter into sole source negotiations with Cardinal Health, Inc. for the use of central fill/mail order services to supplement current outpatient pharmacy dispensing services, with the initial phase at High Desert Health System (HDHS) Pharmacy. If this phase is successful, an enterprise roll out is planned.

DHS selected HDHS Pharmacy for the first phase as access to prescription medication refills has been particularly problematic for these patients. DHS has a limited number of pharmacy sites in this area, requiring patients to travel significant distances to obtain refills. It is hoped that a central fill/mail order model will promote access to medication refills and will serve as a template for enterprise-wide roll out in the future.

BACKGROUND

DHS pharmacies currently dispense approximately 4 million outpatient prescriptions per year, of which approximately 40% are refills. It is expected that central fill/mail order services will benefit DHS and its patients in the following ways:

- 1) Improved customer satisfaction - Central fill is expected to reduce patient waiting times and patient congestion in on-site pharmacies, thereby improving customer service,
- 2) Improved patient access - Mail order services are expected to improve patient access to refill prescriptions especially for those who are unable to travel because of infirmity or transportation problems,
- 3) Increased efficiency for dispensing of all outpatient medication - The central fill dispensing model supports a more efficient means to dispense outpatient refill medication, through the ability to potentially reduce the use of contract staff in the prescription dispensing process. Additionally, DHS pharmacist staff will be able to focus on the immediate dispensing of critical first-time prescriptions while medication refills are handled through the contractor.

Finally, the implementation and operation of a central fill/mail order program will require close coordination between DHS and its contractor. Both parties

must work together to ensure accuracy and timeliness in the refill prescription fulfillment process. Of key importance is the electronic coordination of patient information. To that end, this project will require the DHS pharmacy information system and the contractor's central fill information system either to be the same or be tightly interfaced.

After reviewing information systems options, DHS determined that the replacement of its current ISD outpatient pharmacy information system with Cardinal Health's subcontract vendor National Health Systems (NHS)'s outpatient pharmacy information system (PDX) will best achieve the goal of accurate and timely electronic transmission of patient medication refill data and best ensure patient safety.

This project is in alignment with the following County of Los Angeles Strategic Plan Goals: Goal 1, Operational Effectiveness: (Maximize the effectiveness of the County's processes, structure, and operations to support delivery of customer-oriented and efficient public services.) and Goal 4, Health and Mental Health: (Improve health and mental health outcomes and maximize efficient use of scarce resources, by promoting evidence-based prevention and service principles that are population-based, client-centered and family-focused.)

SOLE SOURCE JUSTIFICATION

DHS is one of the largest participants in the federal 340B discount drug program in the country. DHS facilities spend an estimated \$50 million annually through the federal 340B program, and the discounts that DHS obtains through this program are a key component of its pharmaceutical budget. Accordingly, compliance with this program is a primary concern as DHS cannot afford to jeopardize its participation in this program.

At the core of the 340B program are strict inventory tracking requirements. Because of this, central fill services customarily are closely integrated with pharmacy wholesaler services, with most central fill centers either being directly operated by the 340 entity or by the entity's drug wholesaler. DHS does not have the infrastructure to provide central fill/mail order services itself, and the expense of instituting such services are far beyond its budgetary means, necessitating a contract for these services.

Cardinal Health is DHS' current drug wholesaler and is in a unique position to provide DHS with central fill pharmacy services. DHS currently obtains over 98% of the medications dispensed for patient care through Cardinal Health, via a Novation contract. Cardinal Health is extremely knowledgeable of federal 340B regulations and is uniquely situated to implement a central fill, 340B compliant program having recently partnered on a virtually identical program with the Harris County Hospital District in Houston, Texas. In its work with Harris County, Cardinal Health gained an in-depth familiarity with the federal requirements. It was directly involved in working on the implementation of the program, from the application stage with the federal government through approval and now daily operations. It will bring this high level of expertise to the County's central fill program.

Finally, we would note that Cardinal Health intends to provide the central fill/mail order service through its subcontractor pharmacy, National Health Systems (NHS)'s affiliates Rx.com Partners LP. Rx.com, which is licensed by the State of California as a non resident pharmacy, will provide the actual dispensing services. Accordingly, under this arrangement, DHS will maintain ownership of all medications dispensed by Rx.Com as if the medications were stocked in Cardinal Health's warehouse. DHS facilities will be charged for the medications dispensed through the subcontracted central fill center at the time the medication is dispensed and mailed,

in a manner where detailed patient prescription fill reports are provided to each DHS facility, along with the ability to audit each transaction.

FINANCIAL IMPACT

Pursuing sole source central fill/mail order services with Cardinal Health will potentially reduce pharmacy operation costs associated with processing refill prescriptions within our system. If DHS is able to expand central fill/mail order services across its system, it projects an estimated savings of over \$750,000.00 per year in budgeted cost for the maintenance of an outpatient pharmacy information system.

Additional savings, through lessening DHS reliance on contractor pharmacy staff, may be realized in improved outpatient pharmacy efficiencies as a result of the use of a central fill vendor. The pilot will provide the ability to measure this impact, and provide more data to project the impact of system-wide central fill implementation.

CLOSING

The Office of the County Chief Information Officer is aware of this pending project and will review and approve any Board Letter for the procurement of these services.

If notification from your Board is not received within two weeks from the date of this notice, we will proceed with the sole source negotiation with Cardinal Health, Inc. If you have any questions or need additional information, please contact me or your staff can contact Dr. Amy Gutierrez, DHS Pharmacy Director, at (213) 240-7717 or Patrick Anderson, DHS Office of the Chief Information Officer at (213) 240-8128.

JFS:at

- c: Chief Executive Officer
- County Counsel
- Executive Officer, Board of Supervisors
- County Chief Information Officer